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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 002535

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SUBJECT: KMT ASSETS SELL-OFF IN FULL SWING

REF: TAIPEI 0959

Classified By: AIT Director Stephen M. Young, Reason(s): 1.4 (B/D).

11. (C) Summary: The Kuomintang (KMT) continues to liquidate its assets in order to ease financial pressures on the party and to deprive the DPP of a campaign issue, a KMT official told AIT. Most of the KMT's major assets, including the party headquarters building, have already been sold, and the party hopes to sell off its shares in the Central Investment Corporation before the end of 2007. KMT Chairman Ma Ying-jeou is behind the push to sell off party assets. Some party members oppose selling certain assets such as the party's newspaper and its headquarters building for emotional reasons. End Summary.

12. (U) The KMT's opponents have recently stepped up discussion of the "party assets" issue, perhaps in retaliation for the spate of Pan-Blue inspired corruption accusations against the Chen administration, according to press reports. In mid-June, legislators from the Democratic Progressive Party (DPP) and Taiwan Solidarity Union (TSU) restated accusations that the KMT acquired many of its assets illegally, and proposed that the Legislative Yuan should pass referendum legislation to demand the KMT return its properties to the public. In early July, the Executive Yuan ordered the Ministry of Finance to serve notice to the KMT to return to the government 19 theaters owned by the Central Motion Picture Company (CMPC). During Ma Ying-jeou's mid-July trip to Japan, the Taiwan media published allegations that Ma was arranging for the sale of a KMT-owned building in Tokyo.

13. (C) KMT Deputy Secretary General Chang Che-shen discussed KMT efforts to resolve the "party assets" question with AIT on July 20. Cheng claimed all of the KMT's assets, including the Tokyo property, were obtained legally, and that KMT ownership is supported by proper documentation. (Note: KMT opponents discount the importance of documentation, noting that the KMT ran the government for 50 years, and could then easily obtain whatever legal cover it needed.) According to Cheng, the dispute over KMT assets stems from the fact that KMT was the government before Taiwan democratized, but had to extricate itself from government and transform itself into a distinct political party during the democratization process. While in power, Cheng explained, the KMT often used party-owned assets to perform governmental functions that the government could not do itself. For example, the CMPC served as the government's international propaganda wing, giving the

public the wrong impression that it was actually part of the government. When the KMT was forced by increasing democratization to withdraw itself from governmental functions, blurred private-public distinctions like the CMPC case led many to believe the KMT was wrongfully taking government assets for itself.

¶4. (C) According to Cheng, the KMT first began selling off assets when Lien Chan assumed the KMT chairmanship in 2000, in response to increasing political pressure from the ascendant DPP and the newly elected President Chen. But it was Ma Ying-jeou who shifted the project into high gear --- since Ma became chairman in August 2005, the KMT has sold off a majority of its assets, including various companies, newspapers, television ad radio stations, and real estate properties (see reftel). The party even sold its lavish headquarters building opposite the presidential palace in March, and moved into more modest quarters in June. Cheng said the main balance of KMT assets are now held by the Central Investment Corporation (CIC), and he hopes to sell off all KMT-held shares in the CIC by the end of 2007.

¶5. (C) There are two reasons for Ma's drive to liquidate party assets, said Chang. First, the KMT remains in dire financial straits because of massive pension obligations and high fixed operating expenses. Many of the KMT operations such as the party's newspaper were losing money, or, like the old headquarters, cost too much to maintain. Second, Ma wants to resolve this issue prior to the 2008 presidential election campaign, short-circuiting DPP accusations that the KMT is still hoarding "illicit assets" gained during its fifty years of political dominance. Chang said that although Ma has delegated responsibility for resolving the "party

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assets question" to him, Ma remains involved in the process and monitors its progress closely. To help rebut critics' charges, said Cheng, the KMT will on August 19 make public a report disclosing the history of the KMT's assets and the party's efforts to resolve the matter responsibly.

¶6. (C) In closing, Cheng said opposition within the party to the sale of certain assets should not be interpreted as opposition to Ma himself or his reform agenda. Certain assets, like the old headquarters building and the Central Daily News, Taiwan's oldest newspaper, have emotional significance to many KMT members. Though some within the party opposed letting these icons go, they still support Ma's leadership of the party, Cheng said.

Comment

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¶7. (C) Ma has a strong interest in neutralizing the "party assets" issue before the 2008 presidential election, and this is one issue on which he has exercised effective leadership and not tolerated dissent. Despite grumbling from various quarters, Ma has pressed on, with considerable success. The KMT is also launching a public relations campaign, hoping that increased openness will help put the issue to rest with the public. Despite Ma's resolve, and greater KMT sophistication in trying to sway public opinion, many voters' minds were probably made up on this issue years ago. The KMT can't convince everyone that it acquired its assets fairly and that it doesn't owe compensation to the public; the best it can do is hope to help the issue fade away over time. All of Ma's efforts notwithstanding, this is an issue the DPP will still likely exploit against him in 2008.

YOUNG